

# EXHIBIT 1

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-K**

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2009

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 01-31937

# SHENGDATECH, INC.

(Exact name of registrant as specified in its charter)

**Nevada**  
(State or other jurisdiction  
of incorporation or organization)

**26-2522031**  
(I.R.S. Employer  
Identification No.)

**Unit 2003, East Tower, Zhong Rong Heng Rui International Plaza,  
620 Zhang Yang Road, Pudong District, Shanghai 200122  
People's Republic of China**

(Address of Principal Executive Offices)

**86-21-58359979** (Registrant's Telephone Number, Including Area Code)

**Not Applicable**

(Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report)

**Securities registered pursuant to Section 12(b) of the Act:**

**Title of Each Class:**  
Common Stock, par value \$.00001

**Name of Each Exchange on Which Registered**  
The NASDAQ Global Select Market

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐Accelerated filer ☒Non-accelerated filer ☐  
(Do not check if a smaller  
reporting company)Smaller reporting company  
☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act):

Yes ☐ No ☒

The aggregate market value of the 28,114,324 shares of voting and non-voting common equity stock held by non-affiliates of the registrant was \$105,428,715 as of June 30, 2009, the last business day of the registrant’s most recently completed second fiscal quarter, based on the last sale price of the registrant’s common stock on such date of \$3.75 per share, as reported by The NASDAQ Stock Market, Inc.

As of March 15, 2010, there were 54,202,036 shares of common stock of ShengdaTech, Inc. outstanding.

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**SHENGDATECH, INC.**  
**(A Nevada Corporation)**

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**PART I****Item 1. Business****Our Industry****Overview**

We are a leading and fast growing Chinese manufacturer of specialty additives. Our nano precipitated calcium carbonate ("NPCC") products are used as functional additives in various products due to their special chemical and physical attributes. As a market leader of high-grade NPCC products, we use advanced processing technology to convert limestone into high quality NPCC products, which are sold to our customers in the tire, polyvinyl chloride (PVC) building materials, ink, paint, latex, adhesive, paper and polyethylene (PE) industries.

Prior to November 2008, we also manufactured, marketed and sold coal-based chemical products, namely, ammonium bicarbonate, liquid ammonia, methanol and melamine. We marketed and sold coal-based chemical products mainly as chemical fertilizers and raw materials for the production of organic and inorganic chemical products, including formaldehyde and pesticides. On June 16, 2008, the Tai'an City Government, as part of China's strengthening of environmental law enforcement reform, issued a notice directing Bangsheng Chemical Facility, our coal-based chemical facility in Tai'an City, to cease production due to the close proximity of our facility to residential and non-manufacturing business properties. In accordance with the Tai'an City Government's notice, we ceased production at our Bangsheng Chemical Facility on October 31, 2008. As a result, we recorded an impairment charge of approximately \$3.9 million for Bangsheng Chemical Facility equipment in the fourth quarter of 2008. We do not believe there is additional impairment of assets in 2009. In December 2009, the Company decided to discontinue our operations at Bangsheng Chemical Facility and to sell all of its operating assets and inventory. Although we discontinued the Bangsheng coal-based chemical operations, the Company is currently seeking other strategic opportunities in the chemical business.

**Our Reorganization and Corporation Structure**

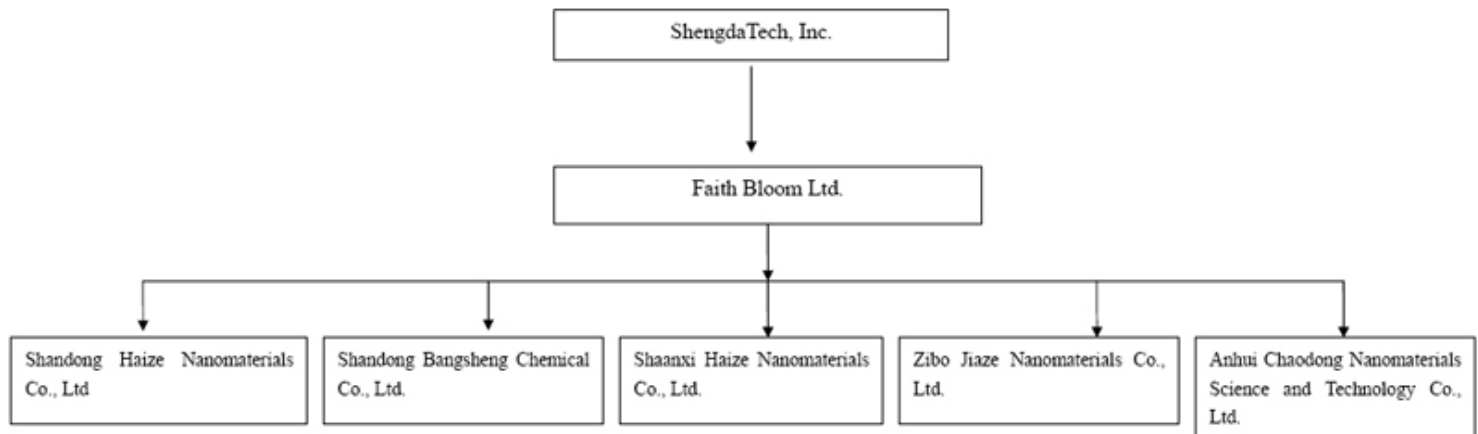
We were organized as a Nevada corporation on May 11, 2001 under the name Zeolite Exploration Company for the purpose of acquiring, exploring and developing mineral properties. We conducted no material operations from the date of our organization until March 2006. On March 31, 2006, we consummated a share exchange pursuant to a Securities Purchase Agreement and Plan of Reorganization with Faith Bloom Limited, a British Virgin Islands company, and its stockholders. As a result of the share exchange, we acquired all of the issued and outstanding capital stock of Faith Bloom in exchange for a total of 50,957,603 shares of our common stock. The share exchange is accounted for as a recapitalization of Zeolite and resulted in a change in our fiscal year end from July 31 to December 31. Faith Bloom Limited was deemed to be the accounting acquiring entity in the share exchange and, accordingly, the financial information included in this annual report reflects the operations of Faith Bloom, as if Faith Bloom had acquired us.

Faith Bloom was organized on November 15, 2005 for the purpose of acquiring from Eastern Nanomaterials Pte. Ltd., a Singapore corporation, all of the capital shares of Shandong Haize Nanomaterials Co., Ltd and Shandong Bangsheng Chemical Co., Ltd., which are Chinese corporations engaged in the manufacture, marketing and sales of a variety of NPCC products and coal-based chemicals for use in various applications. On December 31, 2005, Faith Bloom acquired all of the capital shares of Shandong Haize Nanomaterials Co., Ltd and Shandong Bangsheng Chemical Co., Ltd.

As a result of the transactions described above, Shandong Haize Nanomaterials Co., Ltd and Shandong Bangsheng Chemical Co., Ltd. are wholly-owned subsidiaries of Faith Bloom, and Faith Bloom is a wholly-owned subsidiary of Zeolite. On April 4, 2006, Faith Bloom formed a wholly-owned subsidiary in Shaanxi, China to run the NPCC facility in Shaanxi. Effective January 3, 2007, Zeolite changed its name to ShengdaTech, Inc. On July 1, 2008, Faith Bloom formed a wholly-owned subsidiary in Zibo, Shandong to operate our new NPCC facility in Zibo.

On December 11 2009, Faith Bloom completed its acquisition of Anhui Chaodong Nanomaterials Science and Technology Co., Ltd. (“Chaodong”), a company located in Anhui province, to operate our new NPCC facility in eastern China.

Our corporate structure is depicted in the following chart:



## Market Opportunity

### *The NPCC Markets in china*

NPCC refers to ultrafine nano precipitated calcium carbonate, a synthetic industrial material made from limestone, which has an average particle diameter of less than 100 nanometers or 0.1 micron. The nano particle is smaller than the wavelength of visible light and provides characteristics such as narrow distribution range of grain-size and improved decentrality, which make the compounds suitable for many applications. In the filler and additive industry, traditional fillers, including precipitated calcium carbonate, have been used for years as a means to reduce material costs by replacing a portion of higher cost materials. The main functions of the traditional fillers are to occupy the space and act as cheap diluents of more expensive materials. NPCC is an emerging product in the functional filler and additive industry with numerous possibilities of new applications, many of which are yet to be developed. As functional additives, NPCC offers more additional benefits than traditional fillers. Due to its low cost and special chemical properties, NPCC has been widely used in the rubber, plastic, paint, ink, paper and adhesive manufacturing industries to improve product quality while maintaining or reducing costs. It can be used solely as an additive which contributes to the processing features of end products, or it can also be applied together with other fillers such as precipitated calcium carbonate, titanium oxide and silicon dioxide.

Compared to traditional fillers, NPCC offers a broad range of advantages when used as functional additives. These advantages include the following:

- Enhanced performance of end products, including but not limited to improved durability, increased tensile strength, improved heat resistance and better stabilization; and
- Reduced product cost through substitution of NPCC for more expensive materials.

While research into and manufacturing of NPCC in China began in the early 1980s, the NPCC industry only recently experienced strong growth, resulting from increased awareness of its ability to replace other more expensive materials and its functionality to enhance the performance of various end products. In China, NPCC products are primarily used as functional additives in feedstock materials to the automobile, construction and consumer sectors. Typical feedstock materials that use NPCC include tires, PVC, PP and PE plastic materials, ink, paints and paper. China’s fast-growing economy and on-going nationwide urbanization progress have fueled the rapid development of the automobile, construction and consumer sectors, which in turn have driven the increasing demand for NPCC products in China. Driven by the consumption upgrade trend in China, an increasing number of manufacturers intend to use NPCC as a substitute for certain fillers or additives to improve the quality of their end products and to reduce production cost without sacrificing product quality. We believe that high-quality NPCC products will continue to benefit from the on-going and rapid development of the construction, automotive and printing industries. Frost & Sullivan indicates that the production volume was approximately 440,000MT in China in 2008 with sales of over RMB 1.2 billion. We believe that the development of the plastics, rubber, paper, construction coating and daily-use chemical industries in China will increase the demand for NPCC. With the maturity of NPCC technology and NPCC expansion in China, we believe that domestic products with superior quality and steady performance will gradually replacing the market share of exported products.

NPCC products have been primarily used in the following industries:

#### *Tire and Rubber*

NPCC, when treated by a surface coating agent to improve compatibility, can fill the spatial structure in rubber and enhance the properties of certain rubber products, such as tires and latex. NPCC can be applied solely as an additive or used together with other fillers such as precipitated calcium carbonate, clay and carbon black to reduce expensive rubber content and to improve certain properties of the rubber products. NPCC is a rubber strengthening additive that can enhance the flexibility, break elongation, tear resistance, abrasion resistance and anti-aging performance of rubber and the use of NPCC provides a 10-20% overall improvement in performance measured by increased traction wave resistance, tear resistance, break elongation, tensile strength and aging resistance. In addition, NPCC can also partially substitute for certain more expensive materials such as carbon black and silicon dioxide, thus reducing the overall cost of manufacturing without negative impact on reinforcing and whitening features.

After the financial crisis in 2008, the automobile industry in China exhibited rebounding in 2009, benefiting from governmental support policies such as decreased tax rates. Currently, China has exceeded the United States and became the world's largest automobile consumption nation with annual sales of 12,000,000 vehicles. In addition, the shrinking average life cycle for tires in China is creating additional demand. According to an article published by *China Automotive Review* in March 2008, Chinese car owners have shortened their average tire use period from 5 years to 2.5 years, which, in some developed areas, has decreased to as low as 2 years. In addition, multinational tire producers are beginning to establish worldwide production centers and export bases in China, which should support incremental tire demand. Therefore, we believe our NPCC product will obtain a larger market share in the rubber and tire fields.

#### *Plastic Materials*

Plastic materials, including PVC, PE and PP, are a significant end market for NPCC products. When modified with a surface coating agent, NPCC particles become compatible with organic substances which facilitate their use as a functional additive in plastic materials. Modified NPCC particles can be used in plastics such as PVC building materials to increase their tensile strength, flexibility, durability and heat resistance, to stabilize their dimensions and to improve color fastness and glossiness. In addition, NPCC can be used as a substitute for more expensive materials, such as silicon dioxide, which may considerably reduce the total cost of the end product.

China's plastics industry has been growing at double-digit rates annually since 2000, supported by the nationwide urbanization progress, which is expected to continue through the next decade. The development plans for China's countryside, as laid out by the central government in China's 11th Five-Year Plan (2006-2010), requires large amounts of film, pipes and house surfacing products, which should drive future demand for PVC, PE and PP synthetic plastic materials. According to *China Plastic Industry Yearbook 2007*, the output of PVC increased from 2.5 million metric tons in 2000 to 7.9 million metric tons in 2006 with a CAGR of 21.6%, the output of PE increased from 3.1 million metric tons in 2000 to 6.0 million metric tons in 2006 with a CAGR of 12.0% while the output of PP increased from 3.0 million metric tons in 2000 to 5.8 million metric tons in 2007 with a CAGR of 11.5%.

#### *Paper*

We believe that China's paper industry represents large untapped market opportunities for domestic NPCC manufacturers. NPCC can be used as a functional additive for newsprint paper, coating paper and specialty paper products. NPCC can improve the glossiness, whiteness, opacity and printability of paper products, while reducing the requirement for more expensive titanium dioxide or kaolin. China's paper industry is currently migrating from acid sizing to alkaline sizing in the production process. This migration increases the market opportunity for NPCC, which can only be applied in the alkaline papermaking process. According to the National Bureau of Statistics, China's paper industry experienced rapid growth with paper and paperboard production increasing from 37.8 million metric tons in 2001 to 77.4 million metric tons in 2007, representing a CAGR of 12.7%. With improving standards of living and the advancement of domestic papermaking technologies, China's paper industry is expected to continue to develop and migrate to higher value-added products, which should create incremental demand and increase the range of applications for NPCC products.